

An Overview of the 2006-2007 Supplemental Budget LD 1968 as amended by AFA Committee

A. General Fund Appropriations

The 2006-2007 Supplemental Budget (LD 1968 as amended) results in a net increase of General Fund appropriations of \$51.6 million in FY 06 and \$45.2 million in FY 07. With these additional appropriations, the annual growth of total General Fund appropriations is 3.2% in FY 06 and 1.4% in FY 07. These levels of appropriations are below the appropriation limitation by \$21.4 million in FY 06 and \$146.2 million in FY 07. Provided below are some of the major changes to General Fund appropriations:

General Purpose Aid for Local Schools

- > Provides additional funding of \$41.3 million in FY 07. This brings the FY 07 appropriation amount up to \$914.1 million and represents an increase of 9.3% over FY 06 funding. The increase in funding is due to several factors including a slower than anticipated decline in student enrollment (1.6% vs. 2.0%), a higher than projected inflation rate (2.4% vs. 1.8%), the continuation of the middle school laptop program beyond the September 2006 expiration date (\$8.5 million) and the provision of funding for transition adjustments (20-A MRSA §15686) in order to minimize the adverse impact to some municipalities related to the phase-in of EPS and the Local Cost Share Expectation Method (\$8.1 million).
- > Instead of establishing a minimum salary of \$30,000 for certified teachers for the school year starting after June 30, 2006 as proposed by the Governor, the Committee Amendment provides transition adjustments for eligible school administrative units who have experienced a significant increase in property valuations or who have been adversely affected as a result of the cost-sharing mechanism established pursuant to 20-A MRSA §15688. The Committee Amendment also provides for an annual salary supplement for each public school teacher in Maine who has attained certification from the National Board for Professional Teaching Standards.

Medicaid/MaineCare

- > Appropriates \$19.2 million in FY 06 and \$12.8 million in FY 07 to help address a shortfall in Medical Care - Payments to Providers (MAP) account funding primarily resulting from interim payments that were made to MaineCare providers to help alleviate claims management system (MECMS) payment delays. The Committee Amendment also transfers \$47 million from FY 07 to FY 06 to further address this shortfall and delays in recovering the interim payments from providers. It is assumed the \$47 million reduction in FY 07 appropriations will be offset by recoveries from providers that will be collected in FY 07 instead of FY 06. Should these collections not meet anticipated levels, supplemental FY 07 appropriations for the MAP account may be needed.
- > Part AAA appropriates and allocates \$3.1 million in FY 06 and \$7.8 million in FY 07 for Medicare Part D wrap around services for enrollees to help maintain their prescription drug benefits at pre-Medicare Part D levels. The Committee Amendment also appropriates \$3.1 million in FY 06 and \$16.1 million in FY07 for the amount that the State's Medicare Part D "clawback" payments to the federal government exceed the Medicaid savings the State will realize by having its Medicare/Medicaid dual eligibles enrolled in Medicare Part D.
- > Part HHH appropriates \$3.2 million in FY 06 and \$13.7 million in FY 07 to make MaineCare settlement payments to hospitals. These appropriations combined with federal matching funds are intended to pay hospital settlements owed for hospital fiscal years 2003 and most of 2004 (through September 30, 2004).
- > Deappropriates \$4.2 million in FY 06 and \$9.7 million in FY 07 as a result of implementing an enrollment cap for the MaineCare "non-categorical adults" waiver of 12,850 enrollees through June 30, 2006. This enrollment cap replaces the freeze on enrollment that had been in place for the last year. For FY 07, the cap will be monitored and adjusted to maintain waiver budget neutrality.

General Fund Appropriations (continued)

Medicaid/MaineCare (continued)

- > The Committee Amendment appropriates \$3.1 million in FY 06 and \$4.0 million in FY 07 for MaineCare-related consulting contracts including: \$1.8 million in FY 06 and \$2.8 million in FY 07 for MECMS consulting services; \$1 million in FY 06 and \$1.25 million in FY 07 for the Office of MaineCare Services transformation project and \$0.25 million for consulting services related to the managed behavioral care initiative. These increases are partially offset by deappropriations of \$0.5 million in FY 06 and \$1 million in FY 07 from drug formulary contractual services no longer needed. The Committee Amendment also includes an appropriation of \$1 million in FY 07 to reimburse MaineCare providers for interest costs incurred as a result of delayed payments resulting from MECMS implementation.
- > Deappropriates \$4.6 million in FY 07 as a result of the increase in the Federal Medical Assistance Percentage (FMAP) from 62.90% in federal fiscal year 2006 to 63.27% in 2007.
- > Recognizes \$3.8 million in additional nursing home tax revenue in FY 06 and \$4.2 million in FY 07. This additional revenue is used to fund nursing facility COLA's for FY 06 and FY 07 and a one-time \$700,000 FY 06 appropriation/allocation for nursing facilities and residential care facilities for increased heating costs for the 2005-2006 heating season. Also uses \$1.4 million of the additional revenue to fund nursing home MaineCare costs, allowing for a one-time General Fund deappropriation of \$1.4 million in FY 06
- > The Committee Amendment appropriates \$0.9 million in FY 06 and \$0.6 million in FY 07 for increased transportation costs for MaineCare volunteer drivers.

Higher Education

- > Increases appropriations to the University of Maine System by \$3.25 million in FY 07 and includes funding for: increased costs of energy, compensation and benefits and other goods and services; one-time funds for research and development and addressing the shortage of nurses in the State.
- > Increases appropriations to the Maine Community College System by \$0.3 million in FY 06 and \$1.2 million in FY 07 including funding for: increased energy costs and the Maine Trade Program at the Washington County Community College; the Early College for ME student scholarship incentive; and addressing the shortage of nurses in the State.
- > Provides a one-time appropriation of \$0.3 million in FY 07 to FAME for the Educators for Maine program for Maine residents who are pursuing careers in education.

Tax Relief and Tax Reimbursement Programs

- > Deappropriates \$3.8 million in FY 06 from savings in the Homestead Property Tax Exemption Reimbursement program. See Tax and Fee Changes in Appendix B for a description of revenue changes.

Debt Service

- > Deappropriates \$16.0 million in FY 06 and increases the appropriation by \$2.0 million in FY 07 based on revised debt service requirements, resulting in overall net savings in the biennium of \$14.0 million.

Personal Services

Includes net increases to Personal Services funding of \$3.1 million in FY 06 and \$2.1 million in FY 07, including the following major changes:

- > Approved reclassifications and range changes increasing Personal Services costs by \$2.2 million in FY 06 and \$1.3 million in FY 07 (including unusually large payments for the retroactive and on-going costs of the arbitration award for the reclassification of Human Services Caseworkers).
- > Increases authorized General Fund positions by 50.622 positions (also see position changes by fund summary on Page 6).
- > Includes a departmentwide reduction in Health and Human Services of \$3.35 million over the biennium associated with managing vacant positions.

General Fund Appropriations (continued)

Other Programs

Administrative and Financial Services

- > Building and Grounds Operations - Provides \$0.9 million in FY 06 for increased fuel and utility costs.

Agriculture, Food & Rural Resources

- > Harness Racing Commission - Appropriates \$0.1 million in FY 06 and \$0.15 million in FY 07 for drug testing.
- > Food Assistance Program - Appropriates \$0.09 million annually in FY 06 and FY 07 for additional requests for assistance.
- > Maine Farms for the Future Program - Appropriates \$0.2 million in FY 07 to continue the program for that year.

Conservation

- > Administrative Services - Appropriates \$0.075 million in FY 07 to support 3rd-party certification of forestland

Corrections

- > Increases appropriations by \$0.8 million in FY 06 for increased costs of fuel, utilities and other program requirements.

Cultural Affairs Council

- > Provides General Fund appropriations of \$0.4 million in FY 07 for the New Century Program.

Environmental Protection

- > Remediation and Waste Management - Provides \$0.2 million in FY 06 and \$0.5 million in FY 07 for responses to clean up hazardous waste releases.

Health and Human Services (formerly BDS)

- > Mental Health Services - Community - Appropriates \$1.0 million in FY 07 for services required by the Augusta Mental Health Institute consent decree (also appropriates \$1.0 million for this purpose in MaineCare).
- > Authorizes a limited progressive treatment program at the Riverview Psychiatric Center and the Dorothea Dix Psychiatric Center and funds assertive community treatment (ACT) teams.
- > Appropriates \$1 million in FY 07 for substance abuse grants for those significantly affected by changes in the noncategorical MaineCare program.

Health and Human Services (formerly DHS)

- > General Assistance - Transfers \$1 million each year from the state supplement to the federal Supplemental Security Income program to the General Assistance program to meet an anticipated shortfall.
- > SSI - Deappropriates \$4.5 million in FY 06 and \$2.2 million in FY 07 in funding no longer required for the state supplement to the federal Supplemental Security Income program.

Inland Fisheries & Wildlife

- > Appropriates \$0.935 million (offset by transfer from the Carrying Balance-IFW program) to fund 5 IF&W capital projects.

Judicial Department

- > Provides funding of \$1.0 million in FY 07 to establish a Business Court.

Marine Resources

- > Appropriates \$0.09 million in FY 06 and \$0.25 million in FY 07 for red tide monitoring costs.

Public Safety

- > Provides a \$0.6 million appropriation in FY 07 for the Drug Enforcement Agency to replace reduced federal grants.

B. General Fund Revenue

Appendix B provides a table detailing the revenue effects of the tax and fee changes affecting the State's tax burden calculation and other General Fund revenue changes. These changes result in a net reduction of Maine's taxes and fees of \$1.4 million during the 2006-2007 biennium and a net reduction of \$7.1 million in the 2008-2009 biennium. Provided below is a summary of the major changes.

Tax Conformity

- > Repeals nonconformity with the federal deduction for student loan interest.
- > Restores the Maine child care credit to 25% of the federal credit.
- > Conforms Maine law to federal law regarding contributions to qualified health saving accounts.

Tax Compliance

- > Increases General Fund Individual Income Tax collections by an estimated \$1.4 million in FY 07 as a result of appropriating \$125,000 for computer upgrades and improvements to the Non-filer Discovery and Assessment System.
- > Increases General Fund Individual Sales and Use Tax collections by an estimated \$1.4 million in FY 07 as a result of appropriating \$240,000 for the Maine Use Tax Compliance Program.
- > Amends the definition of "resident individual" to provide standards for determination of domicile.

Income Tax

- > Provides an income tax deduction for contributions to qualified tuition plans under Section 529 of the Internal Revenue Code.
- > Extends the tax credit given for the construction or improvements to any filling station for the purpose of providing clean fuel through 12/31/08.
- > Provides tax credits for boilers or furnace systems that reduce or eliminate certain pollutants.
- > Provides reimbursement for 12% of resident wages and 10% of non-resident wages paid by a certified media production company.
- > Provides a nonrefundable income tax credit for income tax directly related to income generated by a certified media production activity.
- > Provides a \$500,000 income tax credit for four years for historic rehabilitation projects within the Kennebec Arsenal District in Augusta.
- > Provides for an income tax check-off to support Veterans' cemeteries.

Sales and Use Tax

- > Provides an exemption from Maine Sales and Use tax for certain large aircraft and for any aircraft purchased outside of Maine that is minimally used in Maine.
- > Changes the threshold for resale certificates from \$10,000 to \$3,000 and extends the duration of the certificate from one to 3 years with subsequent resale certificates valid for 5 years.
- > Provides a sales tax exemption for certain costs associated with the removal and storage of manure used in commercial agricultural production.

Property Tax

- > Expands eligibility for property tax exemptions to veterans of certain conflicts that do not currently qualify for the exemption.

Real Estate Transfer Tax

- > Exempts deeds between grandparent and grandchildren from the Real Estate Transfer Tax.

Transfer to Maine Clean Election Fund.

- > Transfers \$1.2 million from the General Fund to the Maine Clean Election Fund in FY 07

DHHS Office of Advocacy Reimbursement

- > Increases revenue as a result of reinstating state Advocate positions and reducing contract funds.

C. General Fund Transfers and Adjustments to Balance

Repeals Loan from Other Special Revenue

- > Repeals a transfer of \$42.5 million in Other Special Revenue to the Unappropriated Surplus of the General Fund pursuant to PL 2005, c. 457, Pt. III.

Transfer to Budget Stabilization Fund

- > Transfers \$29 million in FY 07 from the unappropriated surplus of the General Fund to the Maine Budget Stabilization Fund. This transfer would replace a transfer pursuant to 5 MRSA §1535 that is budgeted at \$41.7 million in FY 06. This transfer combined with existing balances in the MBSF and the Reserve for General Fund Operating Capital, increases budgeted reserve fund balances to \$100.5 million.

Transfer to Highway Fund

- > Transfers \$15.0 million on a one-time basis to the Highway Fund in FY 07 to be used for the completion of highway and bridge improvement projects

Transfers to Fund for a Healthy Maine

- > Transfers \$2.3 million in FY 06 and \$2.1 million in FY 07 from the General Fund to the Fund for a Healthy Maine to partially offset previous transfers from the FHM (see FHM discussion).

Transfers to Efficiency Funds

- > Reduces by \$0.5 million in FY 07 the amount transferred to the General Fund from the Fund for the Efficient Delivery of Local and Regional Services.
- > Transfers \$0.3 million in FY 07 from the unappropriated surplus of the General Fund to the Fund for the Efficient Delivery of Educational Services.

Inland Fisheries & Wildlife

- > Transfers \$0.935 million from the Carrying Balance-IFW program to fund 5 IF capital projects
- > Transfers \$0.045 million from the Carrying Balance-IFW program to fund sportsman registration plates
- > Transfers \$0.175 million from the Carrying Balance-IFW program to fund the transfer of the automated MOSES program from the private sector to DAFS

Callahan Mine Site Restoration; DOT

- > Transfers \$0.5 million annually in FY 06 and FY 07 from the General Fund to the Callahan Mine Site Restoration Other Special Revenue Funds program within DOT.

D. 2008-2009 General Fund Structural Gap

OFPR recently updated its estimate of the 2008-2009 structural gap. Based on the March 2006 Revenue forecast and enacted law prior to this supplemental budget, OFPR estimated the General Fund structural gap at \$425-\$450 million.

The on-going spending and on-going and future revenue reductions included in this budget will increase the current estimates of the net 2008-2009 structural gap. Appendix B, Tax and Fee Changes, provides detail of the 2008-2009 biennium revenue reductions, which total \$7.1 million. Based on a doubling of on-going FY 07 appropriations adjusted for unusual increases or decreases in future years, projections of General Fund spending will increase by \$60 million over OFPR's previous estimate. The revised estimate of the 2008-2009 General Fund structural gap based on this supplemental budget is approximately \$67 million higher, resulting in a revised estimate of approximately \$475-\$525 million.

E. Highway Fund

During the current 2006-2007 biennium, the increased use of earmarking of federal highway funds and rapidly escalating construction and energy costs have significantly impeded the use of existing Highway Fund resources to complete highway and bridge improvement projects that were scheduled to be completed during FY 06 and FY 07. To help solve this problem and to reduce the number of projects that would have to be delayed until the 2008-2009 biennium or later, this supplemental budget includes a \$15 million transfer to the Highway Fund from the General Fund on a one-time basis and allocates the additional Highway Fund resources for highway and bridge improvement projects. This provision of additional resources is in addition to whatever resources may be provided in the Highway Fund supplemental budget, LD 1974.

F. Fund for a Healthy Maine (FHM)

In its December 2005 forecast, the Revenue Forecasting Committee revised revenue estimates for the Fund for a Healthy Maine (FHM) downward by \$5.4 million in FY 06 and \$15.0 million in FY 07. Based on the budgeted uses of the FHM, the fund was facing a total shortfall of \$18.0 million. In its March 2006 forecast, the RFC decreased its FHM revenue estimates downward by an additional \$1.1 million for the 2006-2007 biennium. The Committee Amendment addresses this shortfall by:

- > Reversing \$4.45 million of the \$5.0 million transferred to the General Fund from the FHM in PL 2005, c. 457 (the "Part 3" Budget Bill). The "Part 3" Budget Bill transferred \$0.4 million in FY 06 and \$4.6 million in FY 07; the Committee amendment returns \$2.35 million in FY 06 and \$2.1 million in FY 07.
- > Including a statewide deallocation of \$8.4 million in FY 07 to be distributed to individual programs by financial order - \$6.8 million of which is to offset the reduction in revenue and \$1.6 million is to offset the costs of restoring reductions made in the PL 2005, c. 457 part II (the "Part 3" Budget Bill).
- > Deallocating \$7.9 million in FY 07 from the FHM - Drugs for the Elderly and Disabled program.
- > Restoring \$1.6 million in FY 07 reductions in FHM allocations made in the PL 2005, c. 457 part II (the "Part 3" Budget Bill).
- > The Committee Amendment also provides an additional allocation of \$250,000 in FY 06 and \$100,000 in FY 07 for the Tobacco Prevention and Control program and corrects a deallocation in Public Law 2005, chapter 457, Part II, section 2 by transferring \$3 million from the FHM - Drugs for the Elderly and Disabled program back to the FHM -Medical Care program.

G. Total Position Changes by Fund

Total Changes in Authorized Legislative Count and FTE Count Positions by Fund:

- > General Fund - Increase of 50.622 positions
- > Federal Funds - Decrease of 199.626 positions
- > Other Special Revenue Funds - Increase of 6.471 positions
- > Federal Block Grant Funds - Decrease of 3.038 positions

Total All Funds: Decrease of 145.571 positions

Does not reflect changes to Highway Fund positions included in LD 1974, Highway Fund Supplemental Budget

H. Other Fiscal Policy Issues

Distributions from Unappropriated Surplus

- > The distributions of the unappropriated surplus of the General Fund at the close of each fiscal year, the so-called "Cascade," is modified by changing the priority order and by adding new transfers to reserves for retiree health insurance and for capital construction and improvements. Appendix C provides a side-by-side comparison of a hypothetical distribution of unappropriated surplus based on FY 05 year-end experience.

New Lease Purchase Authorizations:

- > \$37,025,160 in principal to be repaid over a 4-year period for the acquisition of portable computer systems (laptops) to support the operations of the Maine Learning Technology Initiative program in the Department of Education. The Committee Amendment further authorizes the provisions of the lease-purchase agreement on behalf of school administrative units as long as all costs are borne by the school administrative unit. This latter provision authorizes \$20,000,000 in principal to be paid over a 4-year period.
- > Increased the principal (by \$3,186,100) and interest amounts authorized for the initial FY 02 acquisition of laptop computers for the Maine Learning Technology Initiative program in the Department of Education.
- > \$14,000,000 in principal to be repaid over a 10-year period for the upgrade of the automated Maine Revenue Integrated Tax System (MERITS).
- > \$2,400,000 in principal to be repaid over a 5-year period for the acquisition and installation of energy-saving devices, such as variable speed drives, for Department of Corrections' facilities.
- > \$1,200,000 in principal to be repaid over a 10-year period for the acquisition and installation of occupancy sensors and energy-efficient windows for Department of Corrections' facilities.

Limited Period Positions

- > The period for which limited-period, project or other temporary positions established by financial order is increased up-to a period of 2 years from the current restriction that they not exceed the statutory adjournment date for the next regular session of the Legislature.

Exempted State Mandate

- > Committee Amendment includes a mandate preamble to exempt the state from the requirement to fund 90% of the minor additional administrative costs associated the expanded property tax exemption for veterans.

Reimburse Costs of Supplemental Life Insurance for Active Duty Troops

- > Provides funding to reimburse certain active duty troops for the cost of supplemental life insurance in 2006.